
Introduction

The Office of Public Instruction (OPI) distributes special education funding and support services to over 400 public school districts. The Legislative Audit Committee requested a performance audit of OPI's oversight of special education program funds. Our audit objectives focused on identifying OPI controls for overseeing special education funds and then examining the need for any additional legislative directive on the use of those funds. Audit testing focused on state, local, and federal funding of public school district special education budgets and related OPI oversight responsibilities. OPI is a "pass-through entity" that distributes funds to local school districts to carry out the various statutory mandates for special education programs. Section 20-3-106, MCA, assigns general duties for school district budgeting procedures to OPI. Our audit examined how OPI controls address these responsibilities. Audit testing examined program activities for fiscal year 2003-2004. Audit findings relate to:

- ▶ Improvements in OPI oversight of special education funds.
- ▶ Need for additional legislative direction on use of funds.

Special Education in Montana

Montana law defines "special education" as specially designed instruction, given at no cost to the parents or guardians, to meet the unique needs of a child with a disability. Special education instruction and related services are administered by public school districts, private schools, special education cooperatives, state operated facilities, residential treatment facilities, and correctional facilities. Currently, special education programs in Montana serve over 19,500 children between the ages of 3-21.

Montana special education program funds are comprised of state, local, and federal funds. In the past 15 years, special education expenditures have doubled with local and federal funds increasing to cover the costs and state funds remaining relatively flat.

General Financial Oversight Controls Are In Place But Could Be Expanded

Audit testing was conducted at OPI and at school districts. Based on this testing, we found a system of controls in place to ensure school district compliance with financial requirements. However, current

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controls focus on compliance rather than funding oversight and exclude key program information in reports to the legislature. Overall, we found OPI needs to improve analysis and reporting of funding information from data currently collected.

OPI Should Strengthen Training on Budget Practices to Key Personnel

OPI provides training and technical assistance on school finances and budgeting practices. Survey results, data analysis, and school district personnel interviews indicated a need for improved training in the financial administration and management of special education funds. We found the current lack of training has resulted in districts using local funds for special education services, while federal funds were held in reserve. In addition, district personnel responsible for budget and expenditure oversight vary per district and OPI training is not always directed at all individuals involved. We recommend OPI develop more specific special education budgeting training and provide that training to the appropriate school district personnel.

Federal Funds are Used as Program Funding Reserves

During our audit testing, we found school districts and special education cooperatives do not annually spend all federal special education funding available, while using other educational program money for special education expenditures. Five fiscal years of data show at least \$5 million or more of federal special education grants are reserved each fiscal year as carryover funds. In addition, Medicaid reimbursements for special education expenditures are also being reserved. Reserving federal dollars has no negative budgetary impacts to a school district, while not spending state and local dollars can reduce future budgets. Federal statutes allow carryover of funds while state statutes do not. Although the majority of federal grant carryover funds are spent by districts within the timeframe allowed by federal law, these budgeting practices have created impacts to both local and state funds.

Impacts to Local and State Funds

Per OPI reports, the greatest share of increased funding for special education is from local funds. In fiscal year 2004, school districts were required to match state special education funds received with \$8.1 million in local funds. However, actual local funds expended in that year were \$32.7 million, while \$10.2 million in reserved federal special education grant funds were not used. Generally, not

spending federal dollars available for special education results in local funding for special education being maintained at a higher level. We also found 67 percent (293/438) of school districts are receiving the state reimbursement payment based on local fund expenditures each year. We found the districts receiving the largest state reimbursement payments also had the most reserved federal grant dollars for special education in those years. Based on this information, it appears changing budget practices to focus on the use of federal funds are needed. Overall, a portion of the reserved \$10.2 million of federal special education grant funds and the additional reserve of Medicaid reimbursement funds could have been used to reduce the \$32.6 million in local dollar contributions and to allow for more equitable distribution of state funds.

**Additional Legislative
Direction Needed On Use
of Special Education
Funds**

There are no state statutory incentives which address the use of federal special education funds for reserves or for using these funds prior to state and local funds. Current Montana school finance law does establish the need for other types of fund reserves and limitations for those reserves. We also found other state statutes address the use of federal funds. Other state agencies/programs have clear legislative guidance on their budget flexibility and priorities for using various fund sources. Section 17-2-108, MCA establishes legislative directives on the prioritization of expenditure of available funds. Although this law does not include school districts, the same concept could be applied to special education funding allocations to address the local funding impacts of reserved federal funds. Without specific legislative guidance for use of federal special education funds and budget practices, OPI cannot address the current use of funding sources.

According to school district and OPI personnel, federal funds are reserved for contingency purposes. Special education laws mandate districts provide services to eligible children whether or not funds are available. Depending on a student's disability needs, district costs can range considerably. Unexpected special education expenses are a common experience. The funding statutes for special education also do not address the need for or purpose of reserves for this program. The legislature has established reserves for other fund

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types. Similar steps could be taken for reserves of special education funds. We believe the legislature should specifically clarify the use and need for these reserves for special education funds.

Without legislative direction on the use of federal funds, special education budget practices have utilized other methods to develop and maintain reserve funds. If legislative criteria were available, special education costs could be applied to designated federal funds before local and state dollars are used whenever possible. This practice should impact the level of local and state funds available for general education and, in turn, reduce or more equitably distribute the amount of state reimbursement payments made in the next funding cycle. We believe the legislature should establish criteria for applying special education expenditures against federal funds whenever possible.